

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Pewamo	County Ionia
Fiscal Year End 3/31/2007	Opinion Date 6/7/07	Date Audit Report Submitted to State 6/15/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

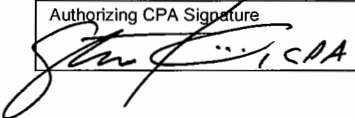
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Rd		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Steve Kirinovic	License Number 1101022020	

**Village of Pewamo  
Ionia County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2007**

Village of Pewamo  
Ionia County, Michigan

March 31, 2007

VILLAGE COUNCIL AND ADMINISTRATION

Mr. William Thelen	President
Mr. Mike Smith	President Pro-tem
Mr. William Heckman	Trustee
Mr. Jarrod Hafner	Trustee
Mr. Randy Zenk	Trustee
Mrs. Patricia Distel	Trustee
Mrs. Sandy Wolniakowski	Clerk
Mr. Carl Hafner	Treasurer

Village of Pewamo

TABLE OF CONTENTS

March 31, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11
Notes to Financial Statements	12-21
REQUIRED SUPPLEMENTARY INFORMATION	
GENERAL FUND	
Budgetary Comparison Schedule	22-23
MAJOR STREET FUND	
Budgetary Comparison Schedule	24
LOCAL STREET FUND	
Budgetary Comparison Schedule	25

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and  
Members of the Village Council  
Village of Pewamo  
Pewamo, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of and for the period ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Pewamo's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Pewamo, Michigan as of March 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year and fifteen days then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the period. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 7, 2007

## **BASIC FINANCIAL STATEMENTS**

Village of Pewamo

STATEMENT OF NET ASSETS

March 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 108,447	\$ 214,850	\$ 323,297
Investments	196,255	172,443	368,698
Receivables	4,592	11,859	16,451
Due from other governmental units	10,388	-	10,388
Internal balances	15,074	(15,074)	-0-
Total current assets	334,756	384,078	718,834
Noncurrent assets			
Internal balances	(60,000)	60,000	-0-
Capital assets not being depreciated	44,447	-	44,447
Capital assets, net of accumulated depreciation	548,864	1,169,815	1,718,679
Total noncurrent assets	533,311	1,229,815	1,763,126
<b>TOTAL ASSETS</b>	868,067	1,613,893	2,481,960
<b>LIABILITIES</b>			
Accounts payable	4,464	2,810	7,274
Accrued wages	711	-	711
<b>TOTAL LIABILITIES</b>	5,175	2,810	7,985
<b>NET ASSETS</b>			
Invested in capital assets	593,311	1,169,815	1,763,126
Restricted for streets and highways	108,094	-	108,094
Unrestricted	161,487	441,268	602,755
<b>TOTAL NET ASSETS</b>	<u>\$ 862,892</u>	<u>\$ 1,611,083</u>	<u>\$ 2,473,975</u>

See accompanying notes to financial statements.

Village of Pewamo  
STATEMENT OF ACTIVITIES  
Period Ended March 31, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
Governmental activities						
General government	\$ 65,003	\$ -	\$ -	\$ (65,003)	\$ -0-	\$ (65,003)
Public safety	8,306	-	-	(8,306)	-0-	(8,306)
Public works	99,335	-	61,915	(37,420)	-0-	(37,420)
Health and welfare	8,625	5,731	-	(2,894)	-0-	(2,894)
Community and economic development	1,490	75	-	(1,415)	-0-	(1,415)
Recreation and cultural	9,031	-	2,446	(6,585)	-0-	(6,585)
Total governmental activities	191,790	5,806	64,361	(121,623)	-0-	(121,623)
Business-type activities						
Sewer	92,594	34,013	-	-0-	(58,581)	(58,581)
Water	82,642	45,334	-	-0-	(37,308)	(37,308)
Total business-type activities	175,236	79,347	-0-	-0-	(95,889)	(95,889)
Total	<u>\$ 367,026</u>	<u>\$ 85,153</u>	<u>\$ 64,361</u>	(121,623)	(95,889)	(217,512)
General revenues						
Property taxes				114,152	-	114,152
State shared revenue				55,523	-	55,523
Investment earnings				39,089	7,523	46,612
Miscellaneous				10,896	-	10,896
Total general revenues				219,660	7,523	227,183
Change in net assets				98,037	(88,366)	9,671
Restated net assets, beginning of the year				764,855	1,699,449	2,464,304
Net assets, end of the year				<u>\$ 862,892</u>	<u>\$ 1,611,083</u>	<u>\$ 2,473,975</u>

See accompanying notes to financial statements.



Village of Pewamo

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2007

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and cash equivalents	\$ 74,032	\$ 42,990	\$ (8,584)
Investments	131,005	56,250	9,000
Receivables			
Taxes	388	-	-
Accounts	2,715	2	125
Interest	1,362	-	-
Due from other governmental units	900	7,344	2,144
Due from other funds	16,626	-	9,356
<b>TOTAL ASSETS</b>	<b>\$ 227,028</b>	<b>\$ 106,586</b>	<b>\$ 12,041</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 4,271	\$ 6	\$ 187
Accrued wages	711	-	-
Due to other funds	568	10,159	181
Advance from other funds	60,000	-	-
<b>TOTAL LIABILITIES</b>	<b>65,550</b>	<b>10,165</b>	<b>368</b>
<b>FUND BALANCES</b>			
Unreserved			
Designated for			
Equipment replacement	17,062	-	-
Undesignated, reported in			
General fund	144,416	-	-
Special revenue funds	-	96,421	11,673
<b>TOTAL FUND BALANCES</b>	<b>161,478</b>	<b>96,421</b>	<b>11,673</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 227,028</b>	<b>\$ 106,586</b>	<b>\$ 12,041</b>

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Softball)		Total Governmental Funds
\$	9	\$ 108,447
	-	196,255
	-	388
	-	2,842
	-	1,362
	-	10,388
	-	25,982
<hr/>		<hr/>
\$	9	\$ 345,664
<hr/>		<hr/>
\$	-	\$ 4,464
	-	711
	-	10,908
	-	60,000
<hr/>		<hr/>
	-0-	76,083
	-	17,062
	-	144,416
	9	108,103
<hr/>		<hr/>
	9	269,581
<hr/>		<hr/>
\$	9	\$ 345,664
<hr/>		<hr/>

Village of Pewamo

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

March 31, 2007

**Total fund balance - governmental funds** \$ 269,581

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 1,142,805
Accumulated depreciation is	<u>(549,494)</u>

Capital assets, net	<u>593,311</u>
---------------------	----------------

<b>Net assets of governmental activities</b>	<u><u>\$ 862,892</u></u>
--	--------------------------

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

Period Ended March 31, 2007

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 114,152	\$ -	\$ -
Intergovernmental	57,969	47,923	13,992
Charges for services	5,806	-	-
Interest and rents	37,282	1,715	92
Other	5,646	-	5,000
TOTAL REVENUES	220,855	49,638	19,084
EXPENDITURES			
Current			
General government	40,214	-	-
Public safety	6,906	-	-
Public works	65,533	13,883	46,477
Health and welfare	8,625	-	-
Community and economic development	1,490	-	-
Recreation and cultural	3,931	-	-
Capital outlay	7,031	-	-
TOTAL EXPENDITURES	133,730	13,883	46,477
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	87,125	35,755	(27,393)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	20,361
Transfers out	-	(20,361)	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(20,361)	20,361
NET CHANGE IN FUND BALANCES	87,125	15,394	(7,032)
Fund balances, beginning of year	74,353	81,027	18,705
Fund balances, end of year	\$ 161,478	\$ 96,421	\$ 11,673

See accompanying notes to financial statements.

Nonmajor Governmental Fund (Softball)	Total Governmental Funds
\$ -	\$ 114,152
-	119,884
-	5,806
-	39,089
250	10,896
250	289,827
-	40,214
-	6,906
-	125,893
-	8,625
-	1,490
1,350	5,281
-	7,031
1,350	195,440
(1,100)	94,387
-	20,361
-	(20,361)
-0-	-0-
(1,100)	94,387
1,109	175,194
\$ 9	\$ 269,581

Village of Pewamo

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

Period Ended March 31, 2007

<b>Net change in fund balances - total governmental funds</b>	<b>\$</b>	<b>94,387</b>
---	-----------	---------------

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 35,731	
Depreciation expense	<u>(32,081)</u>	
Excess of capital outlay over depreciation expense		<u>3,650</u>

<b>Change in net assets of governmental activities</b>	<b>\$</b>	<b><u>98,037</u></b>
--	-----------	----------------------

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 192,211	\$ 22,639	\$ 214,850
Investments	172,443	-	172,443
Accounts receivable	4,864	6,995	11,859
Due from other funds	1,724	207	1,931
Total current assets	371,242	29,841	401,083
Noncurrent assets			
Advance to other funds	56,000	4,000	60,000
Capital assets, net	903,989	265,826	1,169,815
Total noncurrent assets	959,989	269,826	1,229,815
<b>TOTAL ASSETS</b>	1,331,231	299,667	1,630,898
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	1,375	1,435	2,810
Due to other funds	207	16,798	17,005
<b>TOTAL LIABILITIES</b>	1,582	18,233	19,815
<b>NET ASSETS</b>			
Invested in capital assets	903,989	265,826	1,169,815
Unrestricted	425,660	15,608	441,268
<b>TOTAL NET ASSETS</b>	<u>\$ 1,329,649</u>	<u>\$ 281,434</u>	<u>\$ 1,611,083</u>

See accompanying notes to financial statements.

Village of Pewamo

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS

Period Ended March 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 34,013	\$ 45,334	\$ 79,347
OPERATING EXPENSES			
Salaries and wages	15,992	26,300	42,292
Fringe benefits	2,668	4,398	7,066
Contractual services	17,129	11,446	28,575
Utilities	1,879	3,075	4,954
Repairs and maintenance	6,132	1,933	8,065
Supplies	991	11,775	12,766
Equipment rental charges	6,028	10,039	16,067
Water/Sewer sample testing	756	1,398	2,154
Other	878	1,112	1,990
Depreciation	40,141	11,166	51,307
TOTAL OPERATING EXPENSES	92,594	82,642	175,236
OPERATING (LOSS)	(58,581)	(37,308)	(95,889)
NONOPERATING REVENUES			
Interest revenue	6,308	1,215	7,523
CHANGE IN NET ASSETS	(52,273)	(36,093)	(88,366)
Net assets, beginning of period	1,381,922	317,527	1,699,449
Net assets, end of period	\$ 1,329,649	\$ 281,434	\$ 1,611,083

See accompanying notes to financial statements.



Village of Pewamo

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Period Ended March 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 36,409	\$ 49,259	\$ 85,668
Cash paid to employees	(19,578)	(29,717)	(49,295)
Cash paid to suppliers	(32,703)	(40,329)	(73,032)
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>(15,872)</b>	<b>(20,787)</b>	<b>(36,659)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of capital assets	(3,850)	-	(3,850)
Purchases of investments	(172,443)	-	(172,443)
Maturities of investments	207,553	18,000	225,553
Interest revenue	6,308	1,215	7,523
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>37,568</b>	<b>19,215</b>	<b>56,783</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>21,696</b>	<b>(1,572)</b>	<b>20,124</b>
Cash and cash equivalents, beginning of year	170,515	24,211	194,726
Cash and cash equivalents, end of year	<u>\$ 192,211</u>	<u>\$ 22,639</u>	<u>\$ 214,850</u>
Reconciliation of operating (loss) to net cash provided by operating activities			
Operating (loss)	\$ (58,581)	\$ (37,308)	\$ (95,889)
Adjustments to reconcile operating (loss) to net cash provided by operating activities			
Depreciation	40,141	11,166	51,307
Decrease in accounts receivable	2,396	3,925	6,321
(Increase) decrease in due from other funds	(734)	783	49
Increase in accounts payable	1,090	449	1,539
Increase (decrease) in due to other funds	(184)	198	14
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (15,872)</b>	<b>\$ (20,787)</b>	<b>\$ (36,659)</b>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Pewamo is located in Ionia County, Michigan and has a population of approximately 520. The Village of Pewamo operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, President Pro-tem, Clerk, Treasurer, and four (4) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

**1. Reporting Entity**

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Pewamo (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the basic financial statements of the Village of Pewamo contain all the funds controlled by the Village Council.

**2. Basis of Presentation**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

4. Basis of Accounting - continued

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown in the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31, 2007 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Cash, Cash Equivalents, and Investments

Cash equivalents are temporary investments that consist of various money market checking accounts, certificates of deposit with an original maturity of 90 days or less, and mutual funds. The cash and cash equivalents are recorded at market value.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated market value.

7. Property Tax

The Village of Pewamo bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Pewamo on July 1 and are payable without penalty through September 1. All real property taxes not paid to the Village by September 15 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 15 mills (\$15 per \$1,000 of assessed valuation) for general governmental services. For the year ended March 31, 2007, the Village levied 12 mills for general governmental services. The total taxable value for the 2006 levy for property within the Village was \$9,462,419.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers.

The General Fund records charges for administrative services and equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Advances to Other Funds

Long-term advances from some funds to other funds are made to finance new construction.

10. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

10. Capital Assets - continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Structures and improvements	20 - 40 years
Machinery, furniture, and equipment	5 - 30 years
Vehicles	5 years
Infrastructure	40 years

11. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

12. Fiscal Year End Change

The Village changed its fiscal year end from March 15 to March 31. The financial statements reflect activity for the 1 year 15 day period ended March 31, 2007.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings, bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2007, the carrying amount of the Village's deposits was \$691,995 and the bank balance was \$693,311, of which \$238,650 was covered by federal depository insurance. The remaining balance of \$454,661 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

Custodial credit risk

The Village has not adopted a policy that indicates how the Village will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer by diversifying its investments by security type and institution to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

The cash, cash equivalents, and investments referred to above have been reported in the cash and cash equivalents or investment captions on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2007:

Cash and cash equivalents	\$ 323,297
Investments	<u>368,698</u>
	<u>\$ 691,995</u>

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details interfund receivables and payables at March 31, 2007:

Due to General Fund from:	
Major Street Fund	\$ 803
Water System Fund	15,642
Local Street Fund	<u>181</u>
	<u>\$ 16,626</u>
Due to Local Street Fund from:	
Major Street Fund	<u>\$ 9,356</u>
Due to Sewer System Fund from:	
Water Fund	1,156
General Fund	<u>\$ 568</u>
	<u>\$ 1,724</u>
Due to Water System Fund from:	
Sewer Fund	<u>\$ 207</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for activities that have not cleared as of the balance sheet date.

**NOTE D: ADVANCES RECEIVABLE AND PAYABLE**

The following schedule details advances receivable and payable between the funds at March 31, 2007:

Advance to General Fund from:	
Sewer system	\$ 56,000
Water system	<u>4,000</u>
	<u>\$ 60,000</u>

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the period ended March 31, 2007 restated was as follows:

	Restated Balance <u>Mar. 16, 2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Mar. 31, 2007</u>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 44,447	\$ -	\$ -	\$ 44,447
Capital assets being depreciated				
Land improvements	229,500	-	-	229,500
Buildings and improvements	129,679	-	-	129,679
Vehicles and equipment	212,156	3,190	-	215,346
Infrastructure	<u>491,292</u>	<u>32,541</u>	<u>-</u>	<u>523,833</u>
Subtotal	1,062,627	35,731	-0-	1,098,358



Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE E: CAPITAL ASSETS - CONTINUED**

	Restated Balance Mar. 16, 2006	Additions	Deletions	Balance Mar. 31, 2007
Less accumulated depreciation for:				
Land improvements	\$( 184,500 )	\$( 3,750 )	\$ -	\$( 188,250 )
Buildings and improvements	( 74,242 )	( 3,542 )	-	( 77,784 )
Vehicles and equipment	( 157,418 )	( 12,303 )	-	( 169,721 )
Infrastructure	( 101,253 )	( 12,486 )	-	( 113,739 )
Subtotal	( 517,413 )	( 32,081 )	-0-	( 549,494 )
Net capital assets being depreciated	545,214	3,650	-0-	548,864
Capital assets, net	<u>\$ 589,661</u>	<u>\$ 3,650</u>	<u>\$ -0-</u>	<u>\$ 593,311</u>

Depreciation expense was charged to the following governmental activities:

General government	\$ 24,789
Public safety	1,400
Public works	2,142
Recreation and cultural	3,750
Total	<u>\$ 32,081</u>

	Balance Mar. 16, 2006	Additions	Deletions	Balance Mar. 31, 2007
<b>Business-type activities</b>				
Utility plant, wells, and mains - water	\$ 502,448	\$ -	\$ -	\$ 502,448
Sewer system	1,640,587	-	-	1,640,587
Equipment - sewer	59,287	3,850	-	63,137
Subtotal	2,202,322	3,850	-0-	2,206,172
Less accumulated depreciation				
Utility plant, wells, and mains - water	( 225,456 )	( 11,166 )	-	( 236,622 )
Sewer system	( 724,610 )	( 33,197 )	-	( 757,807 )
Equipment - sewer	( 34,984 )	( 6,944 )	-	( 41,928 )
Subtotal	( 985,050 )	( 51,307 )	-0-	( 1,036,357 )
Capital assets, net	<u>\$ 1,217,272</u>	<u>\$( 47,457 )</u>	<u>\$ -0-</u>	<u>\$ 1,169,815</u>

**NOTE F: RISK MANAGEMENT**

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, crime and liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE F: RISK MANAGEMENT - CONTINUED**

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

**NOTE G: RETIREMENT PLAN**

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires a 1.7% contribution from the employees, and the Village contributes the remaining amounts necessary to fund the system.

Annual Pension Cost

For period ended March 31, 2007 the Village's annual pension cost of \$7,416 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 5.0 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is ten (10) years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 37,538	\$ 48,387	\$ 59,370
Actuarial accrued liability (AAL) (entry age)	71,115	92,957	103,518
Unfunded (overfunded) AAL	33,577	44,570	44,148
Funded ratio	53 %	52 %	57 %
Covered payroll	62,651	69,428	71,497
UAAL as a percentage of covered payroll	54 %	64 %	62 %
Annual pension cost	6,698	5,957	7,416
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

Village of Pewamo

NOTES TO FINANCIAL STATEMENTS

March 31, 2007

**NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the combined financial statements, the Village's budgeted expenditures in the General and Special Revenue Funds have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level.

During the period ended March 31, 2007, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
General government			
Executive	\$ 2,570	\$ 2,729	\$ 159
Building and grounds	750	1,944	1,194
Public Works			
Storm drain construction	2,500	3,638	1,138
Health and Welfare			
Ambulance	7,000	8,625	1,625
Community and Economic Development			
Economic Development	-	471	471
Capital Outlay	-	7,031	7,031

**NOTE I: FUND EQUITY DESIGNATIONS**

Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following is the fund balance designation as of March 31, 2007:

General Fund	
Designated for equipment replacement	<u>\$ 17,062</u>

**NOTE J: RESTRICTED NET ASSETS**

Restrictions on net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source preclude their use for unrestricted purposes. The following is the net asset restriction as of March 31, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for	
Streets and highways	<u>\$ 108,094</u>

**NOTE K: RESTATED NET ASSETS**

The Village has retroactively restated infrastructure assets and related accumulated depreciation, as required by GASB Statement No. 34. Net assets for governmental activities as of March 15, 2006 were \$374,816. The adjustment of \$390,039 results in restated net assets as of March 15, 2006 of \$764,855.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Period Ended March 31, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Taxes				
General property tax	\$ 107,185	\$ 122,213	\$ 114,152	\$ (8,061)
Intergovernmental				
State shared revenue				
Revenue sharing funds	55,000	55,000	54,533	(467)
Liquor license fees	1,000	948	990	42
Other grants	-	-	2,446	2,446
Total intergovernmental	56,000	55,948	57,969	2,021
Charges for services				
Ambulance runs	5,000	5,000	5,731	731
Grave openings	150	150	-	(150)
Zoning permits	100	100	75	(25)
Labor transfers	24,900	-	-	-0-
Total charges for services	30,150	5,250	5,806	556
Interest and rents				
Interest	7,950	7,950	9,866	1,916
Rent - equipment	8,000	25,000	27,416	2,416
Total interest and rents	15,950	32,950	37,282	4,332
Other revenue				
Cable TV franchise fees	1,400	1,183	1,154	(29)
Miscellaneous	100	3,271	4,492	1,221
Total other revenue	1,500	4,454	5,646	1,192
TOTAL REVENUES	210,785	220,815	220,855	40
EXPENDITURES				
General government				
Legislative	9,349	10,849	7,937	2,912
Executive	2,570	2,570	2,729	(159)
Clerk	23,804	25,042	24,646	396
Treasurer	3,045	3,370	2,958	412
Building and grounds	1,000	750	1,944	(1,194)
Total general government	39,768	42,581	40,214	2,367
Public safety				
Police department	-	200	200	-0-
Fire department	8,500	8,550	6,706	1,844
Total public safety	8,500	8,750	6,906	1,844

Village of Pewamo

General Fund

BUDGETARY COMPARISON SCHEDULE

Period Ended March 31, 2007

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
Public works				
Department of public works	\$ 119,314	\$ 74,310	\$ 53,099	\$ 21,211
Sidewalk construction	1,000	2,400	1,074	1,326
Storm drain construction	8,000	2,500	3,638	(1,138)
Street lighting	8,500	10,500	7,722	2,778
Total public works	136,814	89,710	65,533	24,177
Health and welfare				
Ambulance	4,000	7,000	8,625	(1,625)
Community and economic development				
Zoning board	1,373	1,373	1,019	354
Economic development	-	-	471	(471)
Total community and economic development	1,373	1,373	1,490	(117)
Recreation and cultural				
Parks and recreation	1,500	4,700	3,931	769
Capital outlay	-	-	7,031	(7,031)
TOTAL EXPENDITURES	191,955	154,114	133,730	20,384
NET CHANGE IN FUND BALANCE	18,830	66,701	87,125	20,424
Fund balance, beginning of period	74,353	74,353	74,353	-0-
Fund balance, end of period	<u>\$ 93,183</u>	<u>\$ 141,054</u>	<u>\$ 161,478</u>	<u>\$ 20,424</u>

Village of Pewamo

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Period Ended March 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - State	\$ 38,000	\$ 38,000	\$ 47,923	\$ 9,923
Interest	800	1,200	1,715	515
TOTAL REVENUES	38,800	39,200	49,638	10,438
EXPENDITURES				
Public works	11,500	15,935	13,883	2,052
EXCESS OF REVENUES OVER EXPENDITURES	27,300	23,265	35,755	12,490
OTHER FINANCING (USES)				
Transfers out	(26,500)	(26,500)	(20,361)	(6,139)
NET CHANGE IN FUND BALANCE	800	(3,235)	15,394	6,351
Fund balance, beginning of period	81,027	81,027	81,027	-0-
Fund balance, end of period	<u>\$ 81,827</u>	<u>\$ 77,792</u>	<u>\$ 96,421</u>	<u>\$ 18,629</u>

Village of Pewamo

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Period Ended March 31, 2007

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental - State	\$11,500	\$11,500	\$ 13,992	\$ 2,492
Interest	100	150	92	(58)
Other	5,000	5,000	5,000	-0-
<b>TOTAL REVENUES</b>	<b>16,600</b>	<b>16,650</b>	<b>19,084</b>	<b>2,434</b>
EXPENDITURES				
Public works	43,000	48,465	46,477	1,988
<b>EXCESS OF REVENUES (UNDER) EXPENDITURES</b>	<b>(26,400)</b>	<b>(31,815)</b>	<b>(27,393)</b>	<b>4,422</b>
OTHER FINANCING SOURCES				
Transfers in	26,500	26,500	20,361	(6,139)
<b>NET CHANGE IN FUND BALANCE</b>	<b>100</b>	<b>(5,315)</b>	<b>(7,032)</b>	<b>(1,717)</b>
Fund balance, beginning of period	18,705	18,705	18,705	-0-
Fund balance, end of period	<u>\$18,805</u>	<u>\$13,390</u>	<u>\$ 11,673</u>	<u>\$ (1,717)</u>



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**  
Certified Public Accountants

3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL**

To the Honorable President and  
Members of the Village Council  
Village of Pewamo  
Pewamo, Michigan

In planning and performing our audit of the financial statements of the Village of Pewamo as of and for the period ended March 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Pewamo's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

**BUDGETS**

As noted in the financial statements, some of the activities and funds of the Village exceeded the amounts appropriated. The variances noted were in the General Fund. A similar issue was noted and reported in our audit comments last year.

The Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

## PREPARATION OF FINANCIAL STATEMENTS

During the course of our audit, it was noted employees and/or management have limited technical expertise to prepare the Village's annual audited financial statements and notes to the annual audited financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of the Village's annual audited financial statements and notes in accordance with accounting principles generally accepted in the United States of America is the responsibility of management. Management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the annual audited financial statements of financial position, results of operations, and cash flows, including the notes to annual audited financial statements, in conformity with accounting principles generally accepted in the United States of America. The auditor cannot be a part of the internal controls.

We recommend the Village consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

## SEWER FUND ACTIVITIES

During our review of the Sewer fund results of operations, it was noted the fund again had a loss this period. This fund has had a loss in several of the previous years. This issue was noted and reported in our audit comments last year.

The Enterprise Funds' intent is that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

We recommend the Village review the sewer rates being charged to determine if they are sufficient to support the operations of this fund. The Village may need to evaluate rates or examine the possibilities of reducing expenses in this fund.

## INVESTMENT POLICY

During the course of our audit and through discussions with administration, it was noted that the Village has not amended their investment policy to address various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Village's funds. These resources are necessary for the delivery of the Village's services programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due. This issue was noted and reported in our audit comments last year.

We recommend the Council review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Village's financial statements by GASB Statement No. 40.

## EMPLOYER IDENTIFICATION NUMBER

During the course of our audit, it was noted that Fire Department holds deposit accounts with local banks under the name and/or employer identification number of the Village, but the funds are not recorded in the Village's computerized general ledger.

We recommend the Village contact the local banks with which it does business and take the necessary steps to have the Village's identifying information removed from all accounts not under the control of the Village.

This report is intended solely for the information and use of management and Members of the Village Council of the Village of Pewamo, others within the organization, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 7, 2007